

Public Accounts Committee

Oral evidence: Tax avoidance and evasion: HSBC, HC 1095

Monday 9 March 2015

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Members present: Margaret Hodge (Chair); Mr Richard Bacon, Guto Bebb, Mr David Burrowes, Stephen Hammond, Meg Hillier, Mr Stewart Jackson, Dame Anne McGuire, Austin Mitchell, Stephen Phillips, John Pugh and Nick Smith.

Sir Amyas Morse, Comptroller and Auditor General, Gabrielle Cohen, Assistant Auditor General, National Audit Office, Rob Prideaux, Director, National Audit Office, and Richard Brown, Treasury Officer of Accounts, were in attendance.

Witnesses: Stuart Gulliver, Chief Executive, HSBC Holdings plc, Chris Meares, former Group General Manager and CEO, HSBC Global Private Banking, and Rona Fairhead CBE, Independent non-executive Director, HSBC, gave evidence.

Q1 Chair: Welcome. Thank you very much for appearing in front of us this afternoon—you're having a bit of a busy time. Can I start with you, Mr Gulliver? Just as a bit of background, you have a UK passport, don't you?

Stuart Gulliver: Yes, I do.

Q2 Chair: Presumably, you own a property here in the UK.

Stuart Gulliver: Yes, I do.

Q3 Chair: And do you vote in UK elections?

Stuart Gulliver: I do.

Q4 Chair: Do you consider yourself a high net worth individual?

Stuart Gulliver: Since my compensation is a matter of public record in the annual report and accounts, of course I do.

Q5 Chair: Why do you call it compensation, not salary or income?

Stuart Gulliver: Pay.

Q6 Chair: Pay? I can't think what you're being compensated for. So you are a high net worth individual. You have been one for some time?

Stuart Gulliver: I have indeed, and I have been UK tax resident since 2003. I pay millions of pounds of tax to HMRC at the top rate each year, as I should.

Q7 Chair: Do you get advice on wealth management?

Stuart Gulliver: My tax returns are managed by a law firm. Since I am the CEO of a bank, most of my net worth is invested in HSBC's stock, and the dividends on those shares, and any capital gains on those shares, are also taxed here in this country.

Q8 Chair: But you are clearly aware of advantages of banking offshore?

Stuart Gulliver: As a matter of record, I am Hong Kong domiciled, as you know, Madam Chair, so I clearly have overseas assets in Hong Kong.

Q9 Chair: And, indeed, you did take advantage of one of most secretive jurisdictions, Panama, which the OECD has said has the least protection anywhere in the world against money laundering?

Stuart Gulliver: As I have said before to the Treasury Select Committee, the reason for setting that Panamanian company up was to create privacy for me. It created no tax advantage and no financial advantage whatsoever. It was also 17 years ago, when I was resident and working in Hong Kong. That structure has since been changed. That account was moved into my own name in 2009, because in 2008 I became a main board director of HSBC and by definition at that point my compensation was a matter of public record. So it was set up for reasons of privacy and no nefarious reasons whatsoever. There was no tax advantage, in terms of either the UK or the Hong Kong tax authorities, from that structure. It was purely for privacy.

Q10 Chair: So are you asking us to believe that you did nothing other than receive money from HSBC? You made no use whatsoever of that account in Panama other than for receiving money from HSBC.

Stuart Gulliver: The account was in Switzerland, not in Panama. The structure's a nominee structure and yes, I am saying to you that there was no tax evasion or tax avoidance from any Government anywhere in the world in that structure.

Q11 Chair: Right. You used Mossack Fonseca as the agent to help to set up your Panamanian enterprise—Worcester Equities Inc. Did you know at that time that Mossack Fonseca is also the agent to Rami Makhoul, who is the bagman for Assad and the richest and most powerful business man in Syria, and that Mossack Fonseca also helped him to establish an entity, Drex, from where he funnels his ill-gotten gains and which is now on the EU sanctions list? Did you also know that two Zimbabwean companies were the clients of Mossack Fonseca and are now on the US sanctions list, including one Ridgpoint, which was owned by another bagman, this time to Mugabe? They are a well known provider of shell companies, and your directors in the company, from what I have seen at Companies House, are anonymous. Did you know all that?

Stuart Gulliver: No, I did not. I dealt with a relationship manager at the private bank in Switzerland, and at the time I opened the account it was actually the British Bank of the Middle East, not HSBC Republic. I dealt with the RM. I was completely unaware from whom the private bank sourced the company.

Q12 Chair: I'm surprised you weren't aware, because of course HSBC Private Bank, from what we have seen in a number of the e-mails, used Mossack Fonseca to set up structures elsewhere, didn't they, Mr Meares?

Chris Meares: If I could just mention that I took over as CEO of Group Private Banking in November 2006 and by that time HSBC had owned a couple of private banks in Switzerland for a long time. We had policies, procedures, all set up for that. When I took over, I became fully aware that the use of companies by Swiss private banks was quite common. A lot of customers asked for companies, for various reasons. I think all of the private banking industry in Switzerland were using companies.

Q13 Chair: All I want to establish at this point is that you regularly used Mossack Fonseca—or Mr Gulliver and other clients.

Chris Meares: I'm not aware that it was regularly them. I think they used lots of providers.

Q14 Chair: Okay. Can I just say this to you, Mr Gulliver, because I read the evidence that you gave last week in the Treasury Select Committee? We have established this afternoon you're an Englishman. You have chosen to domicile in Hong Kong. You're paid through Holland, which is a low-tax jurisdiction, into a secret bank account in Switzerland, set up for a company which is based in Panama and which is a shell company, with anonymous directors. And it's set up for you by an agent who is presently being raided, as I understand it, by the Germans and whose clients include some of the most really vile and unsavoury characters in the world, from Syria and Zimbabwe. How can I, as an HSBC client, have confidence in somebody like you for me to use your bank?

Stuart Gulliver: None of the facts you have set out, Madam Chair, are correct. I am paid onshore in the UK, into a bank account in the UK. Tax is deducted by PAYE. I pay the full top rate of UK income tax on my global earnings for HSBC. The account in Switzerland was opened 17 years ago. It was actually changed into my own personal name. I am paid onshore in the UK and remain tax-resident in the UK. I stayed on in the UK when the board asked me to be group CEO, because actually I felt this was the right place to run HSBC from, because it's in the right time zone. The group CEO's office, at that point, was in Hong Kong. It would have been very straightforward for me to return home to Hong Kong, but I stayed here and remained UK tax resident for a further five years, so far, and therefore my personal tax arrangements were in no way put in front of the importance of serving HSBC. I am afraid that the characterisation you have just made is inaccurate. I am paid in the UK, onshore in the UK, and it is paid as a PAYE deduction. My shares in HSBC, and their dividends, are taxed in the UK. Any capital gains arising from anything I sell are taxed in the UK.

Q15 Chair: You are now taxed in the UK, but it is correct to say that you did have a shell company in Panama with no named directors—agents as directors—set up by Mossack Fonseca. None of that is incorrect, unless you are paying into a secret bank account but you are trying to get us to believe—I think it stretches the imagination a little—that there was no other reason for that than secrecy. You could have set up an account in a north of England building society if you had wanted secrecy. You didn't have to have this intricate system.

Stuart Gulliver: Madam Chair, I was resident in Hong Kong and working in Hong Kong at the time.

Q16 Chair: I have no doubt that there is a good building society in Hong Kong, too.

Stuart Gulliver: These funds were after deduction of tax owed to the Hong Kong Government. That is not the arrangement today. It was 17 years ago. I have been UK tax resident since 2003.

Q17 Stephen Phillips: In evidence to the Treasury Select Committee last week, your own chairman accepted that these arrangements, although they may well have been put in place 17 years ago and are no longer used, have caused reputational damage to the bank. Would you agree with that?

Stuart Gulliver: I would say that my inability to convince anyone that these arrangements were not put in place for reasons of tax evasion has clearly caused reputational damage to the bank, but the fact is that I comply with the tax laws.

Q18 Stephen Phillips: So the answer to my question is that, yes, you agree that the emergence of these arrangements, by which you were previously paid through a Panamanian company with a private account in Switzerland, has led to reputational damage to the bank. Do you agree?

Stuart Gulliver: I would say that the innuendo with which the media has covered this has, yes.

Q19 Stephen Phillips: Mr Gulliver, we will get on a lot faster if you give a straight answer to a straight question. Do you agree with me that it has caused reputational damage to the bank?

Stuart Gulliver: I would agree with you that it has caused reputational damage to the bank in some quarters, yes.

Q20 Stephen Phillips: Are you the appropriate person in those circumstances to remain as the chief executive officer of HSBC?

Stuart Gulliver: I believe I am because my tax affairs are in order, and I have carried out widespread root-and-branch reforms to HSBC in the five years that I have been group CEO, which is also a matter of record. In terms of actually tightening HSBC, making it a simpler business, making it a business that actually follows the highest standards of money laundering controls, knowing our customers and tax transparency, substantial root-and-branch reforms have taken place. If you look at the track record of what I have done, I would argue that I am.

Q21 Stephen Phillips: I am not questioning your track record in any way—I am not in a position to do that. You have accepted, and it is the case, that reputational damage has been caused to the bank. Wouldn't the sensible thing for the board be to ask you to stand aside and place someone in your position who is above reproach?

Stuart Gulliver: I think that is a matter for the board and the shareholders. It is not for me to comment. I am committed to finishing what I began five years ago in a firm that I have served for 35 years and that I believe has 257,000 excellent colleagues, whom I am proud to lead. It is a 150-year-old global British company, and I would like the chance to finish what I have started. It is for the board and the regulators to decide.

Q22 Stephen Phillips: I have one final question on Panama. You wanted to keep your affairs private from your colleagues. Your compensation, pay, remuneration, or whatever you want to call it, was not a matter of public record. That is your explanation. Why pick to be paid through a company incorporated in Panama, which has been known since the 1970s as a jurisdiction where you cannot know the beneficial ownership of companies that are incorporated there? Why not pick some other jurisdiction? Who told you that Panama was a good idea? It seems to me to have been a terrible idea.

Stuart Gulliver: With the benefit of hindsight, it clearly looks that way, but at the time I dealt with the RM—this was 17 years ago and I was a fairly junior member of staff in Hong Kong, but I was being paid a level of compensation about which I wanted some privacy. I did not select Panama.

Q23 Stephen Phillips: You obviously did select Panama. You might have done it on somebody else's advice, but you did select Panama, Mr Gulliver, didn't you?

Stuart Gulliver: Well, clearly, yes.

Q24 Stephen Phillips: What other options were you given at the time? Liberia?

Stuart Gulliver: I have no recollection, from 17 years ago, of the menu of choices.

Q25 Stephen Phillips: But the documents must exist, presumably. You must have retained them for tax purposes.

Stuart Gulliver: The documents showing what other choices there were? I don't think there would be such things.

Q26 Stephen Phillips: Yes, the documents showing the offer that was made to you in order to keep this bank account secret: "Here are the options that are available to you." Do you not keep documents from 17 years ago giving you advice in relation to your tax affairs?

Stuart Gulliver: I have documents in relation to my tax affairs, but not the choice of the nominee structure that was put in place.

Q27 Chair: Can I just have a bit of clarity? You were fairly junior—how much did you put into the Panama account?

Stuart Gulliver: I think that *The Guardian* have the number: it was \$7.5 million.

Q28 Chair: For a very junior person in HSBC, that stretches my credulity, unless I am completely out of an understanding of salaries rather than compensation—\$7.5 million seems a hefty sum.

Stuart Gulliver: Sure, I would agree, but I have served the company for 35 years. At that point, I had been in the firm for 17 or 18 years.

Q29 Chair: Okay, let me go to Mr Meares. The other week, at the Treasury Committee, Mr Flint said: "I believe in personal accountability and I do believe people should be held responsible for what they have direct oversight over when they have failed, yes". Mr Ruffley then asked about Mr Meares and Mr Bannister, the heads of the Swiss private bank, and whether those two individuals should be held responsible. Mr Flint said that they "certainly bear fairly direct responsibility for what went on in the private bank during their stewardship, yes". You are getting shafted. Do you want to tell us anything about that?

Chris Meares: Thank you, I will. Obviously there were a few responses at the Treasury Select in between those various questions. What the chairman quite clearly said is that both Bannister and I were at times heads of the global private bank, not Switzerland. He made that point. We were global heads, based in that—

Q30 Chair: Hang on a minute, within your responsibility was the private bank. Let's get that clear. In the structure, the private bank was answerable to you.

Chris Meares: Absolutely. I was sitting in London, responsible for private banking in 90 different locations around the world. Switzerland was one of those.

Q31 Stephen Phillips: In terms of revenue generated, it was by far the largest, wasn't it Mr Meares? It was 2% of HSBC's entire profit at that stage.

Chris Meares: Switzerland was about 30% of the private bank.

Q32 Chair: But it was a large part of the increase in profits.

Chris Meares: Yes. To be clear, it was a global role. I did not spend my whole time in Switzerland. In fact, I probably spent about 20% of my time there.¹

Q33 Mr Burrowes: But were you responsible for it?

Chris Meares: I had responsibility for supervising the Swiss bank. I was not the day-to-day manager.

Q34 Mr Burrowes: Were you personally accountable for what happened?

Chris Meares: I was not personally accountable for the individual actions of the individuals in Switzerland, but I absolutely—

Q35 Mr Burrowes: So you disagree with Mr Flint, do you?

Chris Meares: But I absolutely share responsibility for the events if any of these reported practices happened on my watch, and for what happened on my watch.

¹ Note by witness: What Mr Meares meant to say was that, on average, he spent about 20% of his time when he was CEO Group Private Banking on matters to do with the Swiss Bank. He normally spent less than 5% of his time in Switzerland; attending meetings. In 2010, when the data theft became available, he probably did spend about 20% of his time that year in Switzerland dealing with the issues that arose from that data.

Q36 Chair: Mr Meares, let me quote to you again what was said at the Treasury Committee. It is not shared responsibility. There seems to be a lot of sharing and nobody taking individual responsibility. I am giving you the opportunity to have your say here, at this Committee. What was said at the Treasury Committee is that you bear “fairly direct responsibility”—not shared responsibility—“for what went on in the private bank”. Is that true? Are you responsible?

Chris Meares: I had responsibility for global private banking and any control failings that happened during the time that I was running the private bank, which was from the end of 2006 to 2011.

Q37 Stephen Hammond: Do you accept that these are control failings?

Chris Meares: I have been retired for three and a half years, and I am relying largely on some reports in the press, but I believe that these were control failings. The bank had acquired—

Q38 Chair: What do you mean by control failings?

Chris Meares: Well, the bank had acquired the Swiss bank in 1999. It had been run for seven years before I actually took the global role. As part of running that bank, we put in policies, procedures, manuals, systems—we put the whole risk framework into place and we improved it over time. I think what happened was that none of this activity that has been reported was picked up by our systems. None of it was picked up and flagged to me, sitting in London, to say that we had an issue.

Q39 Chair: Okay, we’ll go through this a little bit. I am going to give you one more chance, because Mr Gulliver and his colleague Mr Flint were saying the other week that you are the fall guy. Are you saying to us this afternoon that you are the fall guy—that you accept direct responsibility—or are you hiding, in the same way as Mr Gulliver and Mr Flint, and others, are doing: that it is collective responsibility and you are not individually responsible? I am really giving you the opportunity for you to defend yourself, Mr Meares. It is a great opportunity.

Chris Meares: Thank you very much. I think I already said, just in responding to the last question, that I absolutely take responsibility for the control failings that may have happened during my period of being CEO of group private banking.

Q40 Chair: Personally.

Chris Meares: I was in that personal role, so I take—

Q41 Chair: Do you accept personal responsibility?

Chris Meares: So I take responsibility for control failings that may have happened—you have got to be aware that I am not aware of most of these events that were reported in the press.

Q42 Mr Burrowes: Mr Flint said they—meaning you and others—“certainly bear fairly direct responsibility for what went on in the private bank during their stewardship.” Do you agree?

Chris Meares: I think I have responded to that question.

Q43 Mr Burrowes: So do you agree?

Chris Meares: I have responded. I have said—

Q44 Mr Burrowes: This particular question is whether you agree with Mr Flint that you bear fairly direct responsibility for what went on in the private bank during your stewardship.

Chris Meares: I have already said, I think, that I—

Q45 Mr Burrowes: Can you answer my question? Do you agree with that?

Chris Meares: I have said that I take responsibility—

Q46 Mr Burrowes: No, no. I am asking you particularly. Do you bear fairly direct responsibility for what went on in the private bank during your stewardship? Yes or no?

Chris Meares: I think I have answered that question.

Q47 Mr Burrowes: Please say it again. I may have got it wrong.

Chris Meares: I will say it again. I take responsibility for what happened during that period.

Q48 Mr Burrowes: Once again, do you bear fairly direct responsibility for what went on in the private bank during your stewardship? Yes or no.

Chris Meares: Fairly direct. Am I not taking more than fairly direct responsibility? I am taking responsibility for control failings that happened.

Q49 Mr Burrowes: I am doing you an injustice. Avoiding the issue of “fairly”, do you take direct responsibility for what went on in the private bank during your stewardship? Yes or no?

Chris Meares: I take responsibility for the control failings that happened—

Mr Burrowes: Yes or no? I need you to say yes or no.

Q50 Chris Meares: I do not really see the—

Mr Burrowes: It is my job to ask the question and you can answer. So I am asking the question do you accept direct responsibility for what went on in the private bank during your stewardship?

Chris Meares: I take fairly direct responsibility for what happened in global private banking during my stewardship. I do not—

Q51 Chair: Mr Meares, just say yes or no. I think that would really help our proceedings. We are stuck here. Either yes or no.

Chris Meares: I think I used exactly the words you said, but it has to be taken into context, in that I was running the global private bank. I do not take fairly direct responsibility for the individual actions of people in Switzerland that I was not aware of what they were up to.

Q52 Stephen Hammond: Who was responsible? If you were the global head—the global CEO—of private banking, and you take responsibility for what happened on your watch, but you do not take responsibility for what people were doing in Switzerland, who actually does take responsibility?

Chris Meares: I think, with all due respect, what happened was that the chairman actually said at the Treasury Select Committee that the group operated in a very federated structure, so the answer to that—

Q53 Chair: I am going to interrupt you. We want to come back to this. We are giving you a final opportunity to answer Mr Burrowes’s question.

Chris Meares: I thought I answered it.

Q54 Mr Burrowes: Do you accept that you bear direct responsibility for what went on in the private bank during your stewardship?

Chair: Yes or no.

Chris Meares: The answer is no, I do not take fairly direct responsibility for what happened in the Swiss bank at the individual account level, but I take responsibility for what happened at the global level.

Mr Burrowes: Again, what was accepted by Mr Flint: do you accept “personal accountability”, that “people should be held responsible”—he is referring to you—when “they have direct oversight over when they have failed”?

Chris Meares: Sorry, Mr Burrowes, could you repeat that question?

Mr Burrowes: Mr Flint said, “I believe in personal accountability”. I assume you do as well. He said “I do believe people should be held responsible for what they have direct oversight over when they have failed.” He was then asked whether “Mr Meares and Mr Bannister were the heads of the Swiss private bank.” He said: “The head of group private banking globally, much more than just Switzerland.” In other words, he was making the point that people should be held responsible when they have direct oversight over when they failed. You were in the position of having direct oversight. Do you agree?

Chris Meares: To answer that question, I took responsibility for the oversight of control failings, absolutely. What I will not do—you used the word accountability. What I was not accountable for were some of the individual actions in the Swiss bank that I was wholly unaware of at that time.

Chair: We will come back to your awareness.

Q55 Mr Burrowes: During your stewardship of the Swiss bank, were you aware of any hint that tax evasion was going on?

Chris Meares: During my stewardship—

Chair: Why don’t you just say yes or no?

Q56 Mr Burrowes: Did you get any hint of any tax evasion?

Chris Meares: No. It was quite clear. We had a clear policy that tax evasion is illegal.

Q57 Chair: So you didn’t know that tax evasion was going on?

Chris Meares: We had quite a clear policy that tax evasion is illegal.

Q58 Mr Burrowes: I’m fine on the policy, but I am asking you whether you, directly, had any hint of tax evasion under your watch of Swiss HSBC.

Chris Meares: No. When I took over, nothing was flagged up in that respect. When I got to learn about UK tax issues in the private bank, it was in 2010, when HMRC met the bank.

Q59 Mr Burrowes: Okay. So when Swiss bankers were routinely handing over large sums of cash to visiting clients, were you aware of that?

Chris Meares: I wasn't.

Q60 Mr Burrowes: You were not aware of that at all. Were you aware of any marketing of tax avoidance strategies to wealthy clients?

Chris Meares: I was not aware of those marketing strategies.

Mr Burrowes: Were you aware in 2005 of the proactive contacting of clients to suggest ways of avoiding a new tax levied on Swiss savings accounts?

Q61 Stephen Phillips: I hope Mr Burrowes will forgive me—he asked whether you were aware that the Swiss private bank, and no doubt other private banks as well, were marketing tax avoidance schemes to HSBC clients. The answer to that must be yes, surely. You were aware that they were marketing avoidance schemes, because those are not illegal.

Chris Meares: Avoidance schemes, sorry. But actually, the Swiss private bank and HSBC were not—I don't think the Swiss private bank was marketing a scheme.

Q62 Mr Burrowes: You don't think so or you don't know? I am not asking for your interpretation of a scheme.

Chris Meares: Your follow-up question was about 2005. Just to be clear, I was not running the private bank in 2005. That all predated my time.

Q63 Mr Burrowes: During your watch, then, were you aware of any marketing of tax avoidance strategies or schemes?

Chris Meares: I am aware, because there was something that has been talked about as being tax avoidance that is in the UK, where the UK private bank was involved in some film finance schemes.

Q64 Mr Burrowes: I appreciate that those were film investment ones.

Chris Meares: And that has been found to be a tax avoidance scheme, so the answer to that question is yes.

Q65 Mr Burrowes: Was that during your watch?

Chris Meares: That was during my watch.

Q66 Mr Burrowes: When you came before the Treasury Select Committee in 2008, you were asked various questions by Mr Thurso. You said that if you got “any hint that there is tax evasion,” you would deal with it, and: “We prohibit our bankers from encouraging or being involved in tax evasion.” Do you stand by that statement?

Chris Meares: Correct, I stand by that statement. That was a truthful statement.

Chair: We will come back to that.

Q67 Dame Anne McGuire: Can I bring you back to your comment about control failures? Was the system of hold-mail accounts a control failure?

Chris Meares: Not at the time.

Q68 Dame Anne McGuire: Perhaps, just for the record, you could explain what you understand a hold-mail account to be, so that we share the understanding.

Chris Meares: When I became involved as the global head of private banking at the end of 2006, hold-mail accounts had existed in the Swiss private banking industry for many, many years. The Swiss private bank provided hold-mail accounts. In some other parts of the world, hold mail was provided, and in some parts it was not. It was a service that some clients asked for and received.

Q69 Dame Anne McGuire: Right. What would you think was the purpose of a client wanting to have that service? Once they lodged money in a private bank, they did not want any communication with that organisation or to know how their money was doing. It was quite literally—well, not literally—a Chinese wall between them and part of their wealth. What is the purpose of that?

Chris Meares: My understanding of hold mail was that it was there, or could have been there, for a variety of reasons.

Q70 Dame Anne McGuire: Give us a hint about what sort of—

Chris Meares: So it was about confidentiality and security. A lot of these people were worried about their wealth being known and kidnapping. A lot of people had multiple homes so they were not always going to be present at the home that the mail may be delivered to, and they may have gone to pick up the mail when they went to Switzerland or another place.

Q71 Dame Anne McGuire: But it was not just about picking up mail was it? It was about picking up bits of money as well.

Chris Meares: I am not aware of those individual—I was supervising the private bank in the UK and I was not aware of any of those individual actions that clients may take.

Q72 Dame Anne McGuire: Do you think that a hold-mail account, as well as all those other quite creditable reasons that you put before the Committee today, could be used as a vehicle to avoid or evade tax?

Chris Meares: I don't know. But in hindsight, what the group has changed, in changing many of the procedures is, it has now stopped that as a practice and a service.

Q73 Dame Anne McGuire: Maybe this is a question for Mr Gulliver: when did HSBC stop the hold-mail accounts?

Stuart Gulliver: The review started in 2012 and finished in 2013. There were 14,868 clients with hold-mail in the Swiss bank. There are now 12.

Q74 Dame Anne McGuire: 12,000 or 12?

Stuart Gulliver: 12. It went from 14,868 to 12.

Q75 Dame Anne McGuire: So why did it take you so long to stop the hold-mail accounts?

Stuart Gulliver: We started a big root and branch reform of the private bank in 2011. We have done a tax transparency review of all the clients, the hold mail, bearer shares, asset under management, and use of external asset managers. There has been a significant reform and it is a multi-year process.

Q76 Dame Anne McGuire: Why did it take you so long to get rid of the hold-mail accounts for all but 12 of your clients? Was it the fact that some of the information was in the public domain and causing, as Mr Phillips suggested, reputational damage to your bank?

Stuart Gulliver: I started to change HSBC when I became Group CEO. The trigger was the money laundering events in Mexico, which said to me that the loose federal structure that we had had and some of the businesses that were taking place were no longer fit for

purpose. We needed to change the way the firm was run. The work that was done in the private bank was part and parcel of that. A vast array of activities, of which this was one, was taking place across the group. The data theft itself was not the trigger. It was the realisation that, having grown exponentially in the 2000s by acquisition, the DNA and culture of the firm had been diluted. We needed to change to a unitary model and centralise control.

Q77 Dame Anne McGuire: Can I ask you the same questions that I asked Mr Meares? Do you think that one of the reasons for hold-mail accounts was to evade or avoid tax?

Stuart Gulliver: That is why we have stopped it. Yes, I do believe—

Q78 Dame Anne McGuire: You did think that it was?

Stuart Gulliver: I would agree that there is a higher probability that hold mail indicates areas of concern that we, as a bank, should take note of. Therefore, we have significantly—we have gone from 14,868 to 12. The 12 have all got valid reasons, most of which are because they are very old actually.

Sir Amyas Morse: Just to clarify a bit on the acquisition of lots of banks, if I may? Presumably, when HSBC acquired those banks, you must have carried out very thorough due diligence. I imagine that must be so. You must have understood the nature of the business, what services they offered and what risks were inherent. I mean, you would not just buy them without knowing, surely, what you were buying and what risks you were bringing to the group. I find that hard to believe.

Stuart Gulliver: First, I was not on the board at the time that the acquisitions were made, but—

Sir Amyas Morse: I am just asking for information.

Stuart Gulliver: Of course. The amount of due diligence that you can carry out on a listed bank is actually quite limited. If it is a listed company, all its data are meant to be in the fact that it does half-yearly, quarterly or annual reporting to a stock exchange. All the banks we acquired were regulated by top-notch regulators, had their accounts done by one of the big four and were all listed, so the amount of due diligence that you could carry out at a customer level was incredibly limited. One of the shortfalls of banks buying banks is you on-board the previous owner's anti-money laundering and "know your customer" deficiencies.

The other thing I think it would be fair to say is that all these acquisitions then ran into the largest financial crisis since the 1930s. You are right that there was a due diligence, but it is quite limited when it is a publicly listed company.

Sir Amyas Morse: Just to follow on, when you were making your case for acquiring these banks, would I be right in thinking that you had in mind synergistic opportunities that would come from having wider coverage? There must have been a reason why you bought them; presumably there was a business opportunity there.

Stuart Gulliver: Again, we are looking back at history and it is difficult for me to speak as of that moment. But yes, absolutely—these acquisitions took place after the Asian financial crisis. To be fair to the chairman and CEO of the day, they were looking to diversify away from HSBC being over-exposed to Asia. So there was a series of acquisitions—Household, Republic, Bital in Mexico, etc.—that were about shifting the focus from having over-exposure to Asia. So there was a diversification strategy, in addition to which some other investments were made in mainland China at that point in time, into Ping An and Bank of Communications; they were absolutely done for business reasons.

The thinking behind Republic was that in Asia-Pacific there was tremendous wealth creation, and therefore purchasing a leading private bank, which Republic was at the time, would make sense. Also, Republic had a domestic US business, mainly in the north-east of the country, particularly a branch network in Manhattan, which would enhance our commercial banking activities within the USA. So, absolutely, there was a logical business reason for doing these deals.

Q79 Chair: The way you do business, if you have a big corporate and you know there are some individuals of high net worth sitting at the top of that corporate structure, you will try to entice them in to be your customers, won't you? That would be a sensible marketing thing for you to undertake.

Stuart Gulliver: That is actually what we have turned the private banking business back to. You are probably aware that we have gone from 30,000 accounts in Switzerland to 10,000, and what we are attempting to do is move things back so that most of the customers in our private bank should already bank with us, either as big companies—as you say, the chief executive, chairman, chief financial officer—or they are entrepreneurs who have built up an SME and then list it, IPO it, trade-sell it, because then you have your “know your customer” and anti-money laundering detail, as you will have banked them for 25 years. That was always the Asian private banking model. The difference was the shift when we bought Republic.

Q80 Stephen Phillips: If one goes back to 2010, are you saying that at that stage the private bank, particularly in Switzerland, was not interested in attracting individuals of high net worth in order that it could also obtain, for other parts of the bank, their corporate business too?

Stuart Gulliver: I would say that the bank was a loose federation and that that was unlikely to be as prevalent as it is today.

Q81 Chair: But it would be a reason, would it not, Mr Gulliver? It must have been.

Stuart Gulliver: Oh, yes. The reason for owning a private bank is to get the vertical integration. This will sound terribly full of jargon, but there is the value creation; if you bank SMEs, you bank big companies and pick up their private wealth too.

Q82 Stephen Phillips: As a result of which, does it not beggar belief that nobody outside the private bank in Switzerland knew the unlawful activities that were going on in Switzerland on behalf of these individuals of high net worth, who have been attracted in and whose companies are banking with other parts of HSBC and are having other HSBC services?

Stuart Gulliver: No. The point I have just made is that, post-2010 for the Swiss private bank, we began to run it on the same model as the rest of the group, which is as you described.

Q83 Chair: And pre-2010, there was no activity? I can't believe it; it's such an obvious link. It's a pretty basic principle, isn't it?

Stuart Gulliver: Of course, and as you can see from what we've done in the last five years, we are now running the private bank as a completely integrated part of HSBC. And we are going from 150 countries, where there were private banking clients, down to 38, which are 38 in which we have large commercial banks. So, yes, it is being managed the way you would have imagine it always should have been managed, but it is now.

Chair: But I cannot believe that pre-2010 there was no synergy between your private banking for high net-worth individuals and your corporate banking. It may not have been as efficient as it is now, but there must have been a synergy, which means that you must have known in the UK what that was.

Q84 Mr Burrowes: Mr Meares is desperate to come in. You were part of that loose federal—

Chris Meares: I will answer that question. I think the important distinction here is that we did not know, if we were sitting in London and an individual chose not to tell us, that they had a private Swiss bank account. We would not learn of that fact, because the Swiss management and the Swiss relationship managers had a very strict confidentiality and secrecy rule. So if I met somebody who said, "I've got an account with your bank in Switzerland," I would be aware that they had a Swiss bank account. I was sitting in the UK, and I full well know the—

Q85 Chair: With respect, Mr Meares, that is not what we are asking. What we are asking is this. I would have thought it standard banking practice that if you have a corporate client, you will want to try to attract the people at the top of that corporate client—the high-net-worth individuals—to be your private clients. That builds a much stronger relationship. What you are asking us to believe is that you only started doing that after 2010.

Chris Meares: No, we did do it.

Stuart Gulliver: In Hong Kong, Singapore and London, that is exactly what we were doing; in Switzerland, less so.

Q86Chair: But you were perhaps encouraging British corporate—

Stuart Gulliver: I do not know the extent to which we were doing it, but I can tell you now, today, that we are—

Q87 Mr Burrowes: Mr Meares will know.

Chris Meares: Certainly, between 2006 and 2011, if a corporate customer of the UK bank said, “I would like a Swiss bank account for all these various reasons,” then I would know. There were maybe a few who told me in the whole of that time that they had one, or that we had been involved. So I would know because they had told me, and I would also know that it was my duty, if I had—

Q88 Stephen Phillips: Forgive me, Mr Meares. The relationship managers for those corporate clients will naturally be talking to natural persons—to individuals—at the top of those corporate clients. One of the things that they will be saying is, “We”—that is, HSBC, a global group of banking solution companies—“can also help you with your personal banking and in dealing with your tax affairs, and I can put you in touch with people in the private bank in Switzerland, Jersey and Guernsey who can help with that.” Some executives at the top of HSBC’s corporate clients must have taken advantage of that, yes?

Chris Meares: No, not necessarily. But we did not give advice on their tax affairs.

Q89 Stephen Phillips: I want to come back to Mr Gulliver. The trouble, Mr Gulliver, is that you, by which I mean the organisation HSBC, are asking this Committee, as indeed HSBC asked the Treasury Committee, to accept that Switzerland was off on a frolic of its own and that nobody in London knew what was going on. The difficulty that we have with that—at least, I have, in my own mind—is that I cannot believe that nobody knew about the unlawful actions that were taking place in Switzerland. If they didn’t know, they jolly well should have done. What we have essentially got, it seems to me, is blind-eye knowledge: holding the telescope to the blind eye so that you in London didn’t see what you suspected was going on in Switzerland. What is your answer to that?

Stuart Gulliver: I can only comment for the time I have been group chief executive, which is since—

Q90 Stephen Phillips: You were on the board before that.

Stuart Gulliver: The holdings board would know, through the audit committees and the risk committees at a very high level, the activities of the private banking business. I did not have executive responsibility for private banking. I was running global banking and markets.

Q91 Chair: Did you know, Ms Fairhead? You were on the audit committee, and your attendance was very good; you missed one meeting. Did you know?

Rona Fairhead: No, we did not. We would have—

Q92 Chair: Why didn't you know?

Rona Fairhead: As you can imagine, I have gone through all the audit committees and I have gone through the board, and it was a question of whether any evidence was brought to our committee of the practices that we are now talking about. The answer is absolutely no. I look at the oversight. If you look at the role of the audit committee and the board, we are in an oversight role—we are not executives—but what we have to make sure is that there are clear policies in place.

Pretty much from the moment I arrived at the bank—so early 2005—we demanded a tax policy framework which basically said, “It’s about the substance, not the letter, of the law.” So we looked at the policies we had in place, and we were assured that those were best in class. We looked at what we had in terms of oversight and management. We had management on the ground. The head of the Swiss bank was on the ground. Above that person was the group private bank, and above that was obviously the executive.

Q93 Chair: Where was Mr Meares? Do you hold Mr Meares responsible?

Rona Fairhead: Can I go where I think the responsibility lies? I think, first and foremost, that the people who are most culpable are those people who evade taxes. I think that is where the illegality happens, and they are the most culpable. I also hold accountable the front line, who were breaching the policies of the bank. We had clear policies in place, and if they breached those policies I held them accountable. I also hold accountable the management in-country the most, because they should have created a control environment. As you move up—you are shaking your head, but honestly—

Q94 Chair: I just think, you are getting paid £10,000 a day, but I don't know what you do for it.

Rona Fairhead: I don't recognise that number. We can go to that at another point. That is not—

Q95 Chair: Well, it's true, isn't it?

Rona Fairhead: No, it's absolutely not true.

Q96 Chair: Well, you get £500,000—

Rona Fairhead: Do you want to go to that, or shall I talk about the oversight? We, as an organisation, have very clear oversight. We accept that there is a conduct issue here and that people were breaching policy, but we would expect management to be in place to make sure that those policies were complied with. When we go into responsibility, we have a public process whereby the remuneration committee of the bank will look at what has happened. The further that you go away from the actual event itself—you have to accept that there is a proximity point. We will withhold payment to people who we think have accountability. We have done that in the past, even if there is no direct—

Q97 Mr Jackson: Can we get back to the substance, please, rather than this panacea?

Rona Fairhead: I am sorry; this is the substance.

Q98 Mr Jackson: Can I ask you a specific question? Did you sign off bonus payments in this part of the bank?

Rona Fairhead: The remuneration committee signed off bonus payments. They signed off bonus payments after input from the audit committee. We currently have a financial systems vulnerability, which is trying to identify bad actors outside that might harm the bank, and the risk committee, to make sure that any of these control breaches are taken into account.

Q99 Mr Jackson: Okay. Can I ask you this specifically? I know Mr Hammond wants to get in. In the presentation to the investors and analysts of HSBC Holdings in 2007, there was a very interesting document entitled “Profit by Country”. There is a reference on the second page to Switzerland. It says that the “24% increase in pre-tax profit reflected strong...performance in Switzerland and growth in Asia.” That is the first time Switzerland is specifically mentioned. It says that the increase between 2006 and 2007 in gross profits in dollars is 56%, from \$305 million to \$475 million. My question is this. Surely, if you are looking at bonuses relating to the executives involved in that part of the business, you would be questioning the veracity of that and how that profit came about.

Rona Fairhead: Absolutely.

Q100 Mr Jackson: You were not.

Rona Fairhead: Yes, we would be. We would be looking at the underlying growth of that. We now have incentive plans that have a longer period of pay-out, which I think is appropriate and correct. In those cases, we would look at how genuine—

Q101 Mr Jackson: We are talking about 2007.

Rona Fairhead: We are looking at 2007; I know that. That would be looked at. At the audit committee, we used a report that was created by one of the US regulators, called the red flags review—I think it was back in 2003-04—which talked about red flags to watch out for. One was growth that was unexpected, so the growth had to be explained, as to why that growth was more than the market growth. On the issue of the presentation, the amalgamation of these disparate private banks into HSBC, with the control systems that we put in place and the customer relationships that we had, justified higher growth.

Q102 Mr Jackson: So you asked the question, “Why did you have a 56% rise from \$305 million to \$475 million?”

Rona Fairhead: We would have asked a question if there was excessive growth—what we thought was higher growth than market growth.

Q103 Mr Jackson: Incidentally, by comparison, Panama rose 121%, in terms of its gross, and China went up very significantly. The United States, by comparison, went down 130% to a minus figure. My question is, were you looking behind those figures—

Rona Fairhead: We would have asked the questions.

Q104 Chair: About evasion and avoidance, would you?

Rona Fairhead: I can say that there was never any evidence brought to—

Q105 Chair: Did you ask the question about evasion and avoidance contributing to the high profitability? Did you ask the question?

Rona Fairhead: Yes. We had a clear policy about evasion—

Q106 Chair: Did you ask the question, Ms Fairhead? You’re full of policy.

Rona Fairhead: I find it an odd question, because I would find it absolutely unacceptable that anybody took part in tax evasion, or assisting it, therefore everything we expected to be done would be in line with policy and we had not just—

Q107 Chair: So you never asked the question.

Rona Fairhead: Yes, we did. We did through different ways. So we had the management in place, we had internal audit, external audit, and we had regulators in on our sites. Our expectation was that if anything untoward was discovered there it would be highlighted to us. If you ask anybody in the bank who attended those committees, we were

absolutely unyielding if we thought that issues were not being escalated and if we thought that people were not aware of the risks; we were absolutely on top of them—

Q108 Chair: You were so on top of it that you did not uncover it until the Falciani leaks were leaked—so on top of it.

Rona Fairhead: We had management structures, we had oversight, we had an independent board in Switzerland and we had an audit committee in the group private bank with experts from outside. I think it is reasonable to ask non-executive directors in an oversight role to rely on the structures in place, provided that the policy is there, the people look like they are aware of the risks and are on top of things, and all of the other processes are not flagging up issues. Where there are issues, they are addressed.

Q109 Nick Smith: Did you ever ask about the so-called hold mail accounts, which have been identified as being highly problematic and likely to be a problem? Did you ever ask about those and how many there were?

Rona Fairhead: Look, the Swiss private bank, as we said, was less than 2% of HSBC. We had a massive agenda—

Q110 Nick Smith: But there 14,000 of them, we were told, so did you ask about that?

Rona Fairhead: My expectation was that everything we did would have been in line with policy; if it were not, it would have been. I cannot recollect, we might have covered hold mail, but I doubt it. That—

Q111 Nick Smith: But there were 14,000 of them just in Switzerland. Did you not ask about them, because they were likely to be about subterfuge?

Rona Fairhead: We have 50 million customers, with billions of transactions every year. There is a question, going down to that level, that that is what the executives are there for—they are there to challenge that. If you come to the level that we—

Q112 Nick Smith: Hold on. You were responsible for risk and audit. We have been told that these particular accounts were problematic, so why did you not ask about that? That is what Mr Gulliver has said.

Rona Fairhead: What do you mean, problematic?

Q113 Nick Smith: They were highly problematic, in fact—that is what Mr Gulliver said, didn't you, sir?

Stuart Gulliver: Yes, I did.

Rona Fairhead: Yes. So if I go to what we did ask as an audit committee—

Q114 Chair: Can you reconcile something? It is quite interesting. Mr Gulliver told us that the systems were not in place—that that is what he has been doing in the last five years. You are telling us, “Actually, we had these fantastic systems in place. We were so full of systems, but we never challenged beneath them.” So either the systems were not in place, as Mr Gulliver is asserting, and therefore governance was weak, or the systems were in place and you simply failed to use them in a way to identify what was going on. You cannot have it both ways. Who is right out of the two of you?

Rona Fairhead: Our belief at the time was that the policies were in place, the structures were in place and the people were in place—

Q115 Chair: But Mr Gulliver does not agree with that.

Rona Fairhead: With the benefit of hindsight, what we would say, and as Mr Gulliver has also pointed out, it did not take this leak to identify that—

Q116 Chair: But they were not in place, Ms Fairhead, were they? They were not in place.

Rona Fairhead: A number of issues were coming up and, when we look at the reason, the bank used to be done very much on a geographic basis, with very limited control functions across. We relied, in the bank, on two things: the strength of that management on the control side; and the culture of HSBC, which was widely regarded as being of high integrity. Mr Gulliver pointed out the truism that as we acquired more businesses, it became more complex. The breakdown came in terms of the culture, and there were a huge amount more standards in terms of money laundering and tax transparency which we were complying with. The net result was that we said, “We have actually got to a stage where this structure is no longer fit for purpose.” It had been fit for purpose for over 130 or 140 years, but it was no longer. That was when the board said a couple of things: they required that we had to simplify the business because it was becoming too complex, and we had to put those structures in.

Q117 Chair: We know about that. Ms Fairhead, I am going to bring in Stephen Hammond, but I have to say to you that if it was fit for purpose there would not have been, so far, £135 million of tax evasion. There was tax evasion to the UK, and goodness knows where in the rest of the world. To say that that was fit for purpose is just a nonsense.

Rona Fairhead: I agree that we were horrified when we discovered that, but I can assure you that absolutely no evidence of tax evasion—we had independent experts—was raised.

Q118 Stephen Hammond: That brings me to my first question. You said earlier on that you had gone through all the records of the committee—

Rona Fairhead: I have.

Stephen Hammond: And there is no suggestion in any of those records, throughout any of that period, that there was any action that was in any way untoward.

Rona Fairhead: I am not saying that there was no untoward action. We had one unauthorised trading that I can remember in the private bank, and we were on it like a—it was not that there was none, but I am saying in the area of tax—

Q119 Stephen Hammond: But, broadly speaking, there was no hint of a systemic failure.

Rona Fairhead: There was no hint of any systemic failure.

Q120 Stephen Hammond: You have rightly described the normal functions of how an oversight committee would work. So, as non-executive directors, you must say that the blame lies with the executive directors for this failure.

Rona Fairhead: As I have said, I think that the primary responsibility is with the person who evaded the tax—

Stephen Hammond: Well, that person is being marketed to by your relationship manager—

Rona Fairhead: But the people who broke our policies I would hold the most culpable.

Q121 Stephen Hammond: That brings us squarely back to Mr Meares, I am afraid. As global CEO of private banking, you are responsible, and you are asking us to believe that you are responsible for the overall failing but not the individual action. Who was the CEO who reported to you from the Swiss bank?

Chris Meares: In the Swiss bank there were two individuals during my time.

Q122 Stephen Hammond: How often did you meet those people?

Chris Meares: Just to be clear, there was a change in CEO in 2008 after I had come in. We spent 2007 recruiting a new CEO.

Q123 Stephen Hammond: How often did you meet those people?

Chris Meares: I met them at least quarterly, because we had quarterly board meetings. I would probably meet—probably monthly.

Q124 Stephen Hammond: Are you now saying broadly that the reason why this failing happened was because these people lied to you?

Chris Meares: I am not saying they lied; I am just saying that they did not flag up this issue. It did not come up through the board and it did not come up through them that there was this issue.

Q125 Stephen Hammond: Do you think that they knew what was going on?

Chris Meares: I don't know whether they knew. I cannot answer that. I cannot speak for them.

Q126 Stephen Hammond: You do not think that the CEO of HSBC Swiss private bank knew what his relationship managers were undertaking as operations. Is that what you are asking us to believe?

Chris Meares: I cannot categorically say to you yes or no.

Q127 Chair: You are responsible, Mr Meares. Come on—answer a few questions. You are all so ruddy evasive. All you are doing is evading. You are evading the evasion.

Chris Meares: I just cannot speak for them.

Q128 Stephen Hammond: It is either that, or it is a jolly good job that Mr Gulliver is in charge and a shame that he was not in charge before, because it is complete managerial incompetence. To be fair, I have worked in similar organisations to yours, and there were certainly much more stringent systems and reporting systems than you are asking us to believe. Your CEO in Switzerland did not know what his relationship managers were doing.

Chris Meares: The CEO in Switzerland will have been operating that bank, and I do not think that they will have known the individual discussions with a client and so on.

Q129 Stephen Hammond: They must have sanctioned the overall processes that were going on—the overall policies and the way that relationships would happen.

Chris Meares: I think they would have sanctioned overall policies, yes.

Q130 Stephen Hammond: And they did not flag that up to you.

Chris Meares: They did not flag up that there were any issues in this respect.

Q131 Stephen Hammond: They did not think that what they were doing was in any way incompatible with tax law.

Chris Meares: They were operating in Switzerland under Swiss law, and that is how they were running that bank at the time.

Q132 Chair: You knew how Swiss law operated at the time, didn't you?

Chris Meares: I do not know Swiss law in detail at all.

Q133 Chair: Did you not realise why people had bank accounts in Switzerland?

Mr Stewart Jackson: It is because of the cheese and the chocolate.

Chris Meares: There are many reasons why people have accounts in Switzerland. You have heard from HMRC that two thirds of the customer base had no case to answer and had reasons for having those accounts. To say such things about everybody who has an account in Switzerland would not be right.

Q134 Stephen Hammond: I have two final questions. Do you think the practices that HSBC Swiss private bank undertake, or were undertaking at that time, are any different to the practices undertaken by other private banking in Switzerland at that time?

Chris Meares: I would have thought that what the Swiss private bank did was in common with a lot of the industry at the time.

Q135 Chair: You don't know, because you did not know anything about it, did you?

Chris Meares: I did not say that. How can you know what other Swiss banks are doing unless you are working inside them? I was not working inside them.

Q136 Stephen Hammond: I take your answer, but surely it would have been fair, as a CEO, and considering where a large of your income comes from, to have looked at what your competitors were doing and how they were acting.

Chris Meares: They would have known what the competitors were doing.

Q137 Stephen Hammond: Either the practices were similar or they were not.

Chris Meares: I think they were probably operating in common with a lot of the Swiss private banking industry.

Q138 Stephen Hammond: Mr Gulliver said the review of the bank started in 2011 and practices were changed. Was the reason you left the bank as a result of that review?

Chris Meares: No.

Stuart Gulliver: May I comment on that? Chris had already been in the role for five years. I thought that the reform we needed to the private bank would take another five years. It is very unusual to be in post for 10 years. I also wanted the group CEO of private banking to be resident in Switzerland, which is where the current head of private banking globally now resides, for very obvious reasons.

On this point about whether we were doing things differently, the only factual point I would mention is that on the UK-Swiss agreement, HSBC paid 27 million Swiss Francs out of the 1.1 billion Swiss Francs in respect of British citizens, so it would suggest that we had quite a small British business.

Q139 Chair: A lot of people want to speak. Amyas, can you come in first?

Sir Amyas Morse: Mr Meares was talking about Swiss client confidentiality rules, which made it difficult for you to know about detailed transactions. Would you say that that meant oversight was very difficult? In other words, as a practical proposition, to know what was being done by relationship managers in Switzerland was, for anyone in authority over them, probably quite difficult. Is that fair?

Chris Meares: That is fair. It made it very difficult.

Sir Amyas Morse: So, from the point of view of your audit committee and the risk committee, you could not know what was going on in Switzerland. Unlike other territories, in Switzerland it was not feasible for you to know what was going on. It was not the case that you could ask questions and get answers. You could not ask questions, because it was contrary to Swiss banking regulations to find out the answers. Is that not true?

Rona Fairhead: Confidentiality is an issue. It has been an issue for the tax authorities in sharing some of the tax information. The way that we tried to correct for that was to make sure that the policies were clear and consistent, that there was a head of the Swiss private bank based in Switzerland who had complete access to that, and the expectation would be that they would comply with the policies; we also had internal auditors and FINMA, the Swiss regulator, in. So our expectation and our assumption was that those were being complied with, otherwise anything would be highlighted to the board of the Swiss bank.

Sir Amyas Morse: Does that make sense to you, Mr Meares? Was it feasible that things would be highlighted as a result of this? Given that people have got bank accounts for reasons of secrecy, let us say, and there were specific client confidentiality rules that meant that the account managers could not divulge a lot of detail about what they were doing, was it

feasible for information to go up through the bank management structure about what was being done?

Chris Meares: No. To be quite clear, what would happen is that the board, for example—even the Swiss board—would not receive any details on private individuals.

Sir Amyas Morse: So any controls you had could not possibly work, because you could not actually have the basic information that would tell you what was going on in each client transaction in Switzerland—is that not right?

Chris Meares: There were functions there in Switzerland—anti-money laundering functions, compliance functions, risk functions. They were there to do the monitoring of the controls and systems and to raise it at the board. It wouldn't have been about an individual account, but if there were issues, they would have flagged that up. There were units in there to do that monitoring.

Sir Amyas Morse: If you had effective money laundering supervision in Switzerland, and yet people were able to take and deposit very large sums of money in bank accounts without apparently explaining their reasons for doing so, how does that work?

Chris Meares: The global head of anti-money laundering—he was actually an ex-Department of Justice employee—was based in Switzerland to keep control of these things. He used various systems. There was something called NORKOM. There were lots of monitoring systems to keep checks on these things.

Stuart Gulliver: If I may just set out the way we are organised now, the global head of private banking—the person who took over from Chris—is based in Switzerland and reports directly to me. The chief risk officer of the group is on the Swiss private bank holding board and, as Rona indicated, we have now gone to a functional structure, so all of the finance and legal risk people in Switzerland have reporting lines into London. Therefore we now have the ability to do this.

Rona Fairhead: Even then, the compliance and anti-money laundering was in-country and able to be raised to the board. That gave us the comfort. As Mr Meares said, we also looked at who the individuals were, because if the individuals do not have the skills or the knowledge, that is a problem too. This individual was an ex-DOJ American citizen, so we were confident that he had the understanding.

Sir Amyas Morse: A final question: are you satisfied that you could be assured about money laundering but not pick up the sort of transactions that might be taking place for the purposes of tax evasion? You clearly did not pick those up, so are we saying that you could have controls that work for one purpose but not for another?

Rona Fairhead: With the benefit of hindsight, that may have been possible, although my understanding was that any transaction had to be done in line with policy, and if it was outside policy, it would have been inappropriate behaviour by our people—conduct behaviour.

Q140 Stephen Phillips: I'm sorry, ladies and gentlemen; because of the way this place works, I have to go off to European Committee B, where I am making the opening statement.

If you remember, I asked, Mr Gulliver, whether or not you are the right person to lead the bank. Ms Fairhead, you said—and you were in place at the time—that, with hindsight, there were system failings. In other words, this problem ought to have been identified in Switzerland and was not. Given that there were those system failings and you were in charge of the systems at the relevant time, or at least were the person receiving their output, how can you stay in place as a non-executive director of this bank? Surely you should go, shouldn't you? Someone has to take responsibility for this.

Rona Fairhead: I think we have been quite clear about where the responsibility lies. In terms of the oversight, I could only respond to evidence that I had and could only deal with that. I would say that I have been absolutely unyielding. I have driven a number of the changes in the systems. Mr Gulliver can confirm that in 2012, when he was in the middle of pushing this change in culture and in functional structure, he asked me to come and talk to all his senior managers. I came and I just said, "This isn't good enough. We have to change. We have to change the structure and the way that approach this."

Stephen Phillips: Right, I have your answer: you don't think you should go either, so that's fine.

Q141 Chair: We will come back to you on whether you should go, Ms Fairhead. I have to say, ironically, our job is not that different. We get evidence put to us. The real key task we undertake as a Committee is sometimes not just to take the evidence as read, but to ask the questions behind the evidence. I have never seen a non-exec getting half a million a year for 50 days a year. As a really highly paid non-exec, the fact that you depend—

Rona Fairhead: Madam Chair—

Chair: Hang on, let me finish the question. You simply take the evidence as read and do not question it. For me, Mr Gulliver, that would say that she is not fit for that post.

Rona Fairhead: Madam Chair, your assertion that I simply take the evidence and don't—

Q142 Chair: You just said it to us.

Rona Fairhead: I said I did not receive any evidence of tax evasion; I did not say that I just took reports and didn't challenge. In fact, as a risk committee we challenged: "Why are we even in private banking?" A number of the questions you yourself have rightly asked—"Why are you in private banking?", "Why do people use it?" And we had to get ourselves comfortable that we would. We asked the questions. For the relationship managers, it is a very special relationship with customers. How can we make sure that they are in place?

When I was chair of the risk committee, yes, I was paid the normal non-executive director fee—

Q143 Chair: Normal?

Rona Fairhead: The standard non-executive director fee—

Chair: Normal—half a million?

Rona Fairhead: No, Madam Chair, can I explain? I do both, as a non-executive chairman of the US bank of HSBC as well as a non-executive director of holdings. For my US role, I get paid £334,000. That is absolutely in line with my other directors on the US board and is actually significantly less than a previous chairman.

Q144 Chair: For how many days a week? A year, sorry.

Rona Fairhead: I have been very transparent. I have said that I work a week and a half at HSBC, but I also work weekends and evenings. So if I look at the time that I would spend on HSBC, it is probably somewhere from 75 to 100 days a week, absolutely in line with—[Laughter.] Did I say a week? I meant a year. I have been absolutely transparent and absolutely clear that that is what the board of directors of HSBC think is appropriate for the role that I am doing. It is for them to make that decision and they have made it very clearly. They asked me to take on the chair—

Q145 Chair: So you are doing 100 days a year for HSBC.

Rona Fairhead: I would say that if I include the weekend days, yes, that would be about right.

Q146 Chair: And how much for the BBC?

Rona Fairhead: If I look at how much, it would probably be about 150 or 180.

Q147 Chair: And how much for Pepsi?

Rona Fairhead: Pepsi is publicly disclosed as 25 days a year.

Q148 Chair: So that's 250—anything else?

Rona Fairhead: No, that's it.

Q149 Chair: Most people just have 200 days a year of work.

Rona Fairhead: But Madam Chair, if you asked anyone who knew me, they would say that I have almost never worked a five-day week and I am invariably working weekends.

Chair: Right, Nick is next, then Austin, and I am afraid I then have whole load of questions that I am holding back.

Q150 Nick Smith: Mr Gulliver, I want to return to this business of “hold mail” accounts, because I am trying to understand what was going on there, both for the customers and for the company. You said that there were 14,500 of them in Switzerland. How many of these hold mail accounts did HSBC have globally?

Stuart Gulliver: In the private bank, 18,642.

Q151 Nick Smith: Is that on top of the 14,000?

Stuart Gulliver: No, that is the total. So the Swiss one was the lion’s share of it.

Q152 Nick Smith: Okay, it was very chunky. Just to return to Rona Fairhead, did you ever raise the issue of hold mail accounts in your oversight roles at all?

Rona Fairhead: It came up as something to be addressed when we were looking at remediating completely the way that we managed the private bank.

Stuart Gulliver: So after the money laundering issues in Mexico and the sanctions issues in Mexico—which, as you know, resulted in a deferred prosecution agreement of paying a large fine—we went through a root-and-branch reform of all of HSBC. Then, within the private bank, we tried to identify where the highest risks were, and hold mail was one of those risks.

Q153 Nick Smith: Thank you. You talked about there being a higher probability that there would be a problem with this type of accounts. Could you just give us a bit more detail on that?

Stuart Gulliver: It is as your colleague was assuming, which is: why would you not want someone to write to you about your bank statements? So it could be that the mail system in a country is unreliable: remember, we operate in 70 countries and the mail is not as good in all of them as it is in this country. It could be that you have—

Q154 Nick Smith: But hold on, that is not why you think there was a higher probability of a problem, is it?

Stuart Gulliver: No, but you need to go through filters to see why on earth someone would do this.

Q155 Nick Smith: We all sort of get that. I am trying to understand the higher probability point you were making.

Stuart Gulliver: The higher probability is that someone wishes their affairs to be kept from the country in which they ought to be paying their tax.

Q156 Nick Smith: Quite: what you were saying, really, is that there was some sort of subterfuge.

Stuart Gulliver: Yes. Why would you not? And there is a slightly more complicated point on this, which is: now most people get their statements online or by e-mail, so there is a new risk, which is that—if you think about it—they are not collecting a physical piece of mail anyway, so in a way we are kind of looking at a problem manifested through an old solution.

Q157 Nick Smith: Rona Fairhead, did you ever consider this matter at all—that there might be high levels of subterfuge, particularly in the Swiss bank?

Rona Fairhead: That was why, when these issues were raised—the same with bearer shares: that you can just pass on shares without any record; that is why we have closed down bearer shares.

Q158 Nick Smith: So is that a yes or a no?

Rona Fairhead: Yes, we did. That is what we looked at. That is why it has been changed.

Q159 Nick Smith: You dealt with it when? *[Interruption.]* Sorry, just bear with me. Mr Gulliver, you have been a member of HSBC for many, many years now. These hold mail accounts, have they been something that you've consistently seen throughout your career?

Stuart Gulliver: No. Look, I have not been involved with the private bank until I became group CEO—actually, until I became the chair of the private bank in 2010.

Q160 Nick Smith: Weren't you a director of HSBC Swiss in 2007?

Stuart Gulliver: In September 2007, I went on the board of the private bank holding company—not the actual Swiss private bank: the holding company—and, actually, as I said to the Treasury Select Committee, I was put on that board mainly because in 2006 I became responsible for all of global banking markets worldwide, which includes all of our interest rate risk. Except the way the Swiss situation was, I needed to get an oversight of that interest rate risk. I did not join the audit and risk committee, I did not join the day-to-day

management of that operation; so it would be fair for me to say, as I just did, that hold mail was not something, when I was running all the dealing rooms and investment banking, for me to look at. But as I started to de-risk and change the firm, it struck me as a high-risk area—the same, as Rona says, with bearer shares; the same as using what is categorised as external asset managers, which is kind of family offices. It is about beneficial—

Q161 Nick Smith: I sort of get that, but who would have been responsible for knowing that there was something smelly about these hold mail accounts, during that period, when there were 14,500 of them in Switzerland?

Stuart Gulliver: Sure. It would be the executive management in the country at that time.

Q162 Nick Smith: Mr Meares, would that be you?

Stuart Gulliver: No, that would be the people reporting to Mr Meares.

Q163 Nick Smith: Mr Meares, did you ever think, “There’s something smelly about these hold mail accounts. I really should dig a bit deeper here”?

Chris Meares: I think, as I said earlier on, the whole thing about hold mail being provided by the whole Swiss private bank industry, that had existed for probably 50 years—it was a practice. So when I got involved at the end of 2006, and the bank had already owned the business for seven years, it was not that it was a red flag. At that time—in hindsight, of course, after 2010, it became a red flag.

Q164 Nick Smith: But you had 14,500 of these accounts. Surely, the smell must have been all-pervading.

Chris Meares: But it wasn’t considered a red flag at that time, because all the Swiss private banks were doing it.

Stuart Gulliver: But if I may, we don’t have—

Q165 Mr Burrowes: That was in the culture. The problem is, you are leading this change of culture, but at the beginning we asked questions about your own private, secret account, which you say was not nefarious; nevertheless, from a cultural point of view, don’t you see the essential conflict in the public’s mind?

Stuart Gulliver: I can see how you might see some inconsistency, but I think that you are being a little harsh on one set of events 17 years ago.

Mr Burrowes: Okay, I understand that.

Stuart Gulliver: And actually, there was no tax evasion or avoidance: it was purely done for privacy reasons. The circumstances that exist today—

Q166 Mr Burrowes: But it is harsh for the public, when they are paying their tax. It may be harsh from your point of view, but from their point of view they think it is pretty soft.

Stuart Gulliver: But I have paid all of my tax. I have paid millions of pounds of tax at the top rate.

Mr Burrowes: But culture is a demanding thing. It affects all of us and we have to be held responsible for it, even if it seems unfair from your personal point of view. Sometimes we have to just bite the bullet.

Q167 Nick Smith: Can I just follow through on hold mail accounts? Mr Gulliver, on this hold mail accounts thing, I have one last question and we will leave to you to it. You say you got it down from 14,500 to just 12,000.

Stuart Gulliver: Yes.

Nick Smith: The customers holding those accounts, where did they all go? Did they go somewhere completely different? Did they have separate accounts? What happened to them all?

Stuart Gulliver: Hold mail simply means that they now get send mail. It does not mean that the accounts have been closed—point one. Point two, it does not mean that their tax affairs are not in order. Do not assume that that means that there are 14,868 people whose tax affairs are not in order.

Q168 Nick Smith: Tell us more about that set of 14,500 people.

Stuart Gulliver: I do not have that data on me. I could perhaps provide that to you in writing afterwards. They are not all British, obviously.

Q169 Dame Anne McGuire: Ms Fairhead, you were at great pains earlier to tell us what a talented woman you are, when the Chair asked you about your various posts. At no point did it ever come to your committee that out of 18,000 worldwide hold mail accounts, 14,000 of them were in Switzerland, and that perhaps could have provoked some questions from your audit committee?

Rona Fairhead: Those facts, as far as I am aware, were never—I have not seen them in the minutes. I have tried to go back to most of the presentations. Every year we had a presentation from the chief executive of the group private bank and a presentation from the head of tax. I genuinely cannot remember. The Swiss bank was a large part of the private bank. As Mr Gulliver has pointed out, as far as we are aware—we will write to you—they are still clients; it is just that they have taken their mail a different way, probably by e-mail.

Q170 Dame Anne McGuire: The audit committee of a bank is there, I think, to give some comfort to bank customers that there is a governance structure in place that looks out to make sure that the bank is being run properly. You are saying that at no point did you ever, as an audit committee, get a breakdown of the type of accounts that the Swiss bank was operating—not even one report, once a year. How often did the audit committee meet?

Rona Fairhead: We met seven or eight times a year. Every year, we had the head of group private bank and the head of risk, who would come to present to us on all of the risks. There are a huge number of risks in terms of liquidity management, the market risk, the operational risk, the security risk, the information security—

Q171 Dame Anne McGuire: But never the fact that 14,000 out of 18,000 are hold mail accounts.

Rona Fairhead: In terms of the hold mail accounts, I cannot recall it being brought to our committee. The moment we did the deep dive—

Q172 Chair: Why didn't you ask for it?

Rona Fairhead: Because what we relied on was for the three layers of board oversight and the multiple layers of executive oversight to raise issues of material importance to the group audit committee.

Q173 Dame Anne McGuire: Layers of hierarchy in any organisation are not an excuse for those who should have had responsibility not accepting the responsibility. I am just going to repeat to you what Mr Gulliver said in reply to my earlier question about whether he thought that hold mail accounts were used to avoid or evade tax; he said that yes, they were. Why didn't your audit and risk committee think that that significant number of hold mail accounts in Switzerland was an issue of risk for the bank?

Rona Fairhead: I am not aware that it was brought to the committee. Equally, I would say that we had regulators in, and we had internal and external audit, which we would expect to bring such issues to us. If they saw that there was a significant number, which they thought was disproportionate, and they thought that this was a concerning area, they would have brought it to the Committee.

Dame Anne McGuire: Frankly, I think it is quite a creative interpretation of the words audit and risk. That is all I am going to say.

Q174 Chair: Can I just say to you that sitting here, it sounds rich in bureaucracy and very, very short of common sense? That is what it really feels like. I will just make another comment to Mr Meares and Ms Fairhead. In the public sector, if things go wrong on your watch, whether or not you were individually involved, you accept responsibility and resign.

You accept responsibility. Neither of you, and nobody in the bank—either at this hearing or at the hearing of the Treasury Select Committee—has deigned to accept responsibility for what was massive, illegal and terrible tax evasion.

Rona Fairhead: I disagree. I have said, and I will say now, I was horrified to discover what was happening. We have publicly apologised that we had controls that—

Chair: It happened on your watch, both of you. I will now bring Austin in.

Q175 Austin Mitchell: Thanks, Chair. You should not have rushed to bring me in. I will turn to the audit committee later, because that seems to me like money for jam. But, first, I want to ask a Yorkshireman's question: did any of you derive personal profit—performance-related pay, profit-related pay or share options—from the illegalities being carried out in Switzerland?

Chris Meares: No.

Q176 Austin Mitchell: So your pay was not affected at all by the profits?

Chris Meares: The Chairman mentioned at the Treasury Select Committee that at least my variable pay was not revenue related; it was not related to the profits. It was a balanced scorecard which depended on a whole host of things—it was not revenue related.

Q177 Austin Mitchell: So it takes no account of the profits generated in Switzerland?

Chris Meares: No. It would have been part of the overall performance.

Q178 Austin Mitchell: So if they did well, you did well?

Chris Meares: No. But, equally, there were lots of other measures there: there were risk measures—

Q179 Austin Mitchell: I know there were all sorts of things, but if they did well, you did well.

Chris Meares: No. My bonus did not go up and down depending on how Switzerland did.

Q180 Austin Mitchell: Okay. Mr Gulliver?

Stuart Gulliver: No, I was running global banking markets at the time, so any pay that I got was linked to the profitability of global banking markets and a very big balanced scorecard with lots of other non-financial measures as well. Clearly, as group CEO, which I

have been since 2011, yes, my pay is dependent on everything that happens in the group, and I made that clear to the Treasury Select Committee. Again, as evidence of how the bank does hold people accountable, foreign exchange, and the events that happened in foreign exchange, did happen when I was running global banking markets, and £1.75 million has been taken off me because of the failure to have adequate systems and controls around foreign exchange. So, absolutely, that is the case. But it is not the case that I was responsible for a business I was not running 10 years ago.

Q181 Chair: Who has lost money on this one?

Stuart Gulliver: The problem is it is so far in the past. We have only had malus adjustment since 2010—which is a bonus you have received, it is in shares, you have not yet got it and it is forfeited—and clawback, which has only applied from 2014. My pay for 2014 is subject to seven years of clawback, so the bank, the regulator and the board can adjust my pay for 2014 up till 2022 if something turns up that they did not know about today, but that is not the way things were organised in 2005. Actually, it is frustrating, sitting here as the group CEO, to not have those tools, to be very honest with you. Actually, the senior managers regime, we completely welcome. We like malus, and we like clawback, because it does take a long time for things to surface. We like the senior managers regime, because we can set out who is accountable. All those things, we welcome, as the people having to run things today.

Q182 Chair: Has anybody got sacked?

Stuart Gulliver: Of the people that were around at that time, there are 30% of the RMs still with us. It looks like most people just left, or were managed out of the firm over time. I cannot see any evidence of any particular individual being sacked, having gone back through the records. But only 30% of the relationship managers who were around in 2005 and 2006 are still there—that is about 38 people—and they have all been positively vetted to make sure that there is nothing untoward about them. So they were around at the time, but they aren't linked to any of the stuff that we have seen surface through any of the ICIJ reporting².

Q183 Austin Mitchell: Okay. I have a note here from ActionAid UK, which says that Barclays made a quarter of its 2013 profits in Luxembourg. What proportion of HSBC's profits were made in Luxembourg? What proportion of HSBC's profits were made in Switzerland?

Stuart Gulliver: The private bank, in 2014, was less than 0.5% of the group's profits, and Luxembourg is smaller than that.

Q184 Chair: Any other tax haven or low-tax jurisdiction? Do you put your profits into low-tax jurisdictions?

² Note from witness: There are 6 RMs still at the bank who were linked with the Guardian and other press reports. They have all been individually vetted by the bank.

Stuart Gulliver: No, we don't, but obviously we operate in places that have lower tax rates than the UK—Hong Kong does, Singapore does, the United Arab Emirates does, Saudi Arabia does—but that is not tax management as you would see it at all; that is the fact that we have banks in those countries, and they have different corporate tax rates, no more, no less.

Q185 Austin Mitchell: Let me turn to the audit committee. Rona Fairhead, you were on it from 2004, and you were the chair from 2007, when you became chair of the risk committee, but you stayed on the audit committee. So you were issued with your white stick in 2004. It seems an extraordinarily blind committee. I have the report here from the United States Department of Justice from 11 December 2012, when HSBC was fined \$1.9 billion. The assistant Attorney-General said: "HSBC is being held accountable for stunning failures of oversight—and worse—that led the bank to permit narcotics traffickers and others to launder hundreds of millions of dollars through HSBC". You were on the audit committee. What did you know about that?

Rona Fairhead: We knew that when the Bank of Mexico was bought it needed to be massively remediated. We as the audit committee were not aware of the practices that were happening on the ground. The whole infrastructure in the Mexican organisation had been remediated, and we tried to remediate clients. The regulators had encouraged HSBC to come in with its control because it was a failed bank. The moment that we heard, as a board, that there were concerns at the regulator, we sent in the group head of compliance. He was there for six months. We got feedback from the regulators that the issues had been addressed.

It was after the time that we had been told that the issues had been addressed that these matters came to light. They are clearly shocking. The bank has been very public about how appalled we were that these things were happening. But in the audit committee when the issue was identified we were all systems go. We had the global compliance officer in place to fix it and we got feedback that it had been addressed. What we have done since then is massively change the structure of the organisation and put in the functions right across the business. We have tried to grab hold of this, because we realise that banks are used by bad actors for attempts at wire fraud, tax evasion and money laundering, and, in addition to correcting what we saw—

Q186 Chair: Have you just realised that, Ms Fairhead?

Rona Fairhead: No, absolutely not.

Chair: Honestly, this is almost laughable.

Rona Fairhead: No, absolutely not. We were on top of these issues in terms of—

Chair: You weren't on top of it.

Rona Fairhead: What was presented to us—

Chair: You weren't on top of it.

Rona Fairhead: We had policies. We expected those to be implemented.

Chair: You had policies, but not the practice.

Rona Fairhead: We had the management in place that confirmed to us that it was happening.

Q187 Mr Burrowes: You accepted in your progress update in 2015 that they weren't high enough: "We acknowledge that the compliance culture and standards of due diligence in HSBC's Swiss private bank, as well as the industry in general, were significantly lower".

Rona Fairhead: I'm sorry?

Mr Burrowes: Your own update in 2015 recognised that it could have been higher.

Rona Fairhead: Yes, we have to do it higher. We were insisting on—

Q188 Mr Burrowes: So it wasn't good enough, was it?

Rona Fairhead: We were insisting on the controls being led ever, ever higher. In addition to that, as a bank, we have also created two new committees. One is on conduct and values, because we realise that there are practices taking place and we need to make sure that our products are appropriate to sell. We have a committee for financial systems vulnerabilities, on which we have advisers from the intelligence services, from the tax services, from the payment systems. We are trying to get ahead because, as we carry on improving the systems of this bank, the bad actors are finding more and more ways to try and abuse the system. What we are trying to do is get ahead.

Chair: I think you are completely seduced by structures. I really do.

Q189 Austin Mitchell: You also didn't know that illegalities were being committed in Switzerland. What is the audit committee for?

Rona Fairhead: It is there to oversee the organisation and to hold the management to account, if any evidence of bad practice is identified. We got external experts to come in and give us their feedback. Their initial feedback on the information we got in Switzerland came back with no evidence of inappropriate conduct in this bank.

Q190 Chair: And you believed them.

Rona Fairhead: They were independent. They were specialists, and we were reliant on specialists. We can only deal with the information—we can ask the questions, we can put the right people in, we can get external input, which we did—and if that came back and it was not flagged, you have to ask what more we can do. We get in these experts and we had the regulators on site too.

Q191 Austin Mitchell: You were audited by KPMG up to 2013, then by PricewaterhouseCoopers. They do not seem to have noticed that there were basic control weaknesses, which allowed all this illegality to go on.³ They collected £53 million in fees. Have you asked for any of that money back?

Rona Fairhead: I look at what we did in both internal audit and external audit and I wonder why those—

Austin Mitchell: So the internal audit committee has no oversight of the external—

Rona Fairhead: I am no longer on the audit or risk committee. I do not know what conversations they have had.

Q192 Chair: Have you asked for the money back, Mr Gulliver?

Stuart Gulliver: From the external auditors, no, I have not. With the internal auditors, we changed the people three years ago and brought in a completely new team, a much tougher group of people who are fiercely independent, to try therefore to give us some comfort as to the fact that that third line of defence was much reinforced.

Part of the answer to your concerns is the organisational change that took place in 2011. Remember that this company was run kind of as 88 separate countries and we had this mantra that the country head was king; we have moved it to a couple of global businesses—now four global businesses—11 global functions and five regions. That does not sound significant, but it hugely is. It is the biggest organisational change—

Q193 Austin Mitchell: It makes it sound too big to control and too big to run—too big for you to know what is going on.

Stuart Gulliver: With respect, that is what the change is about addressing. Centralising and moving from a federation to central control is to deal with the fact that the company needs to demonstrate clearly that it is not too big to manage, it is not too complex. Leaving it as that loose federation, we were relying on country management, which you have heard us say repeatedly this afternoon clearly did not work. That is why I felt that we needed to change the way the firm was organised.

Q194 Chair: Are you blaming the previous CEO?

Stuart Gulliver: I am not blaming the previous CEO. I am saying that when I took over I believed that we needed to move to a much more centralist process—

³ Note by witness: The correct position is that the intention to appoint PwC as auditor was announced by HSBC in 2013, but for the year ending 31 December 2015. KPMG were auditors for the years ended 31 December 2014 and 2015.

Q195 Chair: Why are you not blaming him?

Stuart Gulliver: I am not blaming him because it would be appropriate only to talk about the time that I was in control, which was from 2011.

Q196 Chair: I have never known anyone new in their job who does not talk about the past. Are you blaming what happened under him?

Stuart Gulliver: No. The previous group CEO had to contend with the sub-prime crisis and the problem that Household had, the worst financial crisis since the 1930s. When Mexico did happen, he acted extremely quickly to deal with it.

Chair: But are you blaming him for this?

Stuart Gulliver: No, I am not.

Q197 Chair: So who are you blaming?

Stuart Gulliver: I think that the fact of the matter is that we had an organisation structure that was in essence out of date and diluted by multiple acquisitions, which diluted the DNA of the firm.

Q198 Chair: And meant that countries around the world were robbed of money.

Stuart Gulliver: I believe that the changes that we have now made address those control issues.

Q199 Chair: May we get it clear for the record, because you keep saying about your own account that it was 17 years ago? You only closed the account in 2009.

Stuart Gulliver: The account was moved into my personal name in 2009; the Panamanian company, I think, was 2009 or 2010, but I instructed the private bank to close the account and to liquidate the company.

Q200 Chair: Four or five years ago, not 17 years ago.

Stuart Gulliver: But I am a Hong Kong domicile; Hong Kong is my home.

Q201 Meg Hillier: I will go back to Rona Fairhead, if I may. Ms Fairhead, you talked a lot about receiving presentations and having reports made to you, but you strongly deny that you just received; you said that you instigated inquiries. When did you first as a committee—

when you were chairing it—ask for information about tax evasion and tax avoidance, tax evasion in particular?

Rona Fairhead: Tax evasion is illegal and it would absolutely be a crime if anybody participated at all in evasion. We were very clear about avoidance if the substance was not commercial. The primary substance had to be a commercial reason, not driven, so it was consistent. In our tax framework presentations, we always asked, “Are we behaving appropriately? Are we in line with policy?”, and similarly with the group private banking.

Q202 Meg Hillier: When did you initiate a request to get somebody to come and talk to you about these matters? When did you pull in external auditors, before all of this arose?

Rona Fairhead: We had external auditors all the way through. We had internal audit—

Q203 Meg Hillier: You commissioned them as a committee?

Rona Fairhead: Yes, they reported to the committee, so internal audit—

Meg Hillier: Sorry, you keep—

Rona Fairhead:—reported to us.

Q204 Meg Hillier: Maybe it’s the way you speak, but it sounds very passive—“We received it.” “They reported to us.” When did you initiate? When did you ask them?

Rona Fairhead: I’m sorry; if that’s the way it has come across, then I really apologise. We asked for these risk control frameworks. We demanded that the chief executive—I think Mr Meares and Mr Gulliver could confirm—had to come in person. They had to bring their risk officer; they had to give us a presentation, in the way that we required, to highlight all of the issues; they had to address any issues of concern that had been raised by the internal audit, or the external audit. We absolutely chased down if we thought they had the wrong people in place—and again, Mr Gulliver will confirm this. If I got a presentation—or if the committee got a presentation—where we did not think the person was on top of the issues, I would be straight on the phone or on the e-mail to Mr Gulliver or, before him, to Mr Geoghegan and Mr Green, or to Mr Bond before them.

Q205 Meg Hillier: So people were frightened? This was like a star chamber: and if they did not perform, you could wield the axe. Is that what you are saying?

Rona Fairhead: They would come in and we would probe, as is right for an oversight body. If we thought people were not aware of the issues, then we would raise it. If we thought the presentation was not specific enough and did not assuage our concerns, then we would ask for a paper to come back and that person, often, to come back.

If we thought that there were not enough people on an issue and it was not being done, if an audit issue was raised—let me tell you what was raised about the private bank in Switzerland. There were two main areas that were raised. One was the information security—so, were we protecting our customers’ data? As you can imagine, as a bank, that is absolutely at the heart. We were in the middle of improving the systems to make sure that they were more protected. Ironically, the reason that Mr Falciani was in was to address that.

The other was that even though we had a report—which had been commissioned because the Financial Services Authority had asked for it—which said that our processes and procedures were comprehensive and detailed, there was also a question that our documentation sometimes was not good enough; so we again had a big push on documentation and on “knowing your customer”. So there were issues that were raised. If we thought that they were slipping on their deadlines of when they were going to achieve, we were unyielding on pushing it forward. Before and after every audit or risk committee, I would go to the chief executive and say, “These are the areas of concern,” and would report it in full to the board.

Q206 Meg Hillier: You have ruled out tax evasion as illegal and therefore, in a way, not a worry—that’s how it came across. But surely when all the issues around tax avoidance were gaining currency, overlapping your time as chair, can you detail what you actually asked the bank to do to make sure that it was compliant?

Rona Fairhead: We asked the bank to go in and look at every customer account and to confirm that it was behaving appropriately.

Q207 Chair: When was that?

Meg Hillier: Every customer account?

Rona Fairhead: My understanding is—I wasn’t there at the time: I joined in 2004—when the bank was bought, there was an immediate programme of customer remediation. When Mr Meares was there, he was going through a very active “Know your customer” programme.

Q208 Meg Hillier: So this was every customer in every country? Presumably not every one—my HSBC bank account probably wasn’t of interest.

Rona Fairhead: All the customers had to be reviewed, to make sure that the documentation was in place. In terms of this data theft particularly, we heard that Mr Falciani had been arrested in 2008; the understanding—what we were told—was that there were seven accounts with information. It was not until the end of 2009 that we realised the theft was much more significant. We still have not seen all of the data, but HMRC came to the bank and informed us that they had information that they thought was concerning, of tax avoidance and possibly tax evasion. We immediately got an independent review done of customers. We did not know the customer names because of all the secrecy; but on three separate goes we got an independent consultant to go in, go into the customers’ accounts and try and find all

the information, to make sure that we were not in any way assisting tax evasion. There were some really specific projects that we required the executive to do.

Q209 Meg Hillier: Stuart Gulliver became CEO in 2011, so how much of this, Rona Fairhead, predated Mr Gulliver's arrival, and how much did you and your committee advise Mr Gulliver about the actions subsequently taken?

Rona Fairhead: Well, this data theft was almost 10 years ago, so it was before Mr Gulliver came. Mr Gulliver had been on the board for a number of years, and the board, as any board director will know, gets full reports from the audit committee and the risk committee and any of the other major committees, so every board director was aware that this had been raised by HMRC, and this is what we were doing, and this is what we required the management to do to try and get on top of it.

Q210 Meg Hillier: Can I just be clear about the date that you reported your concerns to the board: 2008 was the data theft; 2009 was when you had the meeting with HMRC.

Rona Fairhead: No, no. In summer 2008, Mr Falciani was arrested. There was no information that we could get hold of in terms of how many files he had stolen. We were told it was only seven at the committee. During the end of 2009, there were some conversations in the bank that it might be more. At the end of 2009, we heard that it was significant, and there was a much, much bigger number. We worked with the FCA on that. What we were required to do—they were worried about two things: firstly the information, the security, of the customer data; but also the liquidity risk. Would there be a risk that people would just worry, and just pull all their money out? So that was what we focused on as well.

Q211 Chair: And the honesty risk?

Rona Fairhead: The honesty risk was exactly why we required the management to look into the customer accounts, and got an independent expert—

Meg Hillier: May I—

Chair: No, Meg, let me just ask this—because it is completely ridiculous. I have copies here, and if you look at the data, a third of the data—I just cannot believe either Chris Meares or Rona Fairhead. I do not put you in the same stable, Mr Gulliver. If you look at the data, a third of the data is stuff that is entered by the customer relations managers about the individuals. There were pages of this—absolutely pages of total collusion by the bank, in your name, in tax evasion. There is tons of data which shows total collusion, Mr Meares. You said you were not involved in tax avoidance—at your bank, at which you were in charge—of being involved in tax avoidance. Particularly around the—I am going to quote a bit at you. It is around the European new savings directive. This is when you were encouraging them all to join Mr Gulliver in Panama—to take their money out of Switzerland and put it all into Panama. I am not going to name any customers, but this is your guy saying to you, “I contacted this person by phone to indicate that unless he changed his situation he would be subject to UK tax.” The next one: “This client has been informed several times on ESD”—

that is the European directive—“even by being visited in London.” So the idea, Mr Gulliver, that this was contained in Switzerland is nonsense. There were There were endless visits to the Ritz, to various posh restaurants, to coffee bars and to people’s homes in London—even being visited in London by somebody: “Today I hopefully for the last time explained to him all options, including switching into GF bonds or changing investments into out-of-scope products.” Somebody else—this is also ESD; let me give somebody who is not ESD. “Met with X. He will be opening a Panamanian corporation as a solution to ESD. He will then transfer his assets to the new account. The opening forms have already been signed.” Next: “Client came to visit us at his biannual visit. I took advantage of his journey to ask him to sign the appropriate documentation to avoid falling under ESD.” That is tax avoidance. This is industrial-scale tax avoidance.

“So and so is keen to have an account where the passage of assets on his death pass seamlessly to a relative of his. There are, however, problems in opening a joint account for X and his relative, in that the theory account is undeclared—a fact with which his relative may not be entirely at ease, as she is a compliance officer with another bank.” *[Laughter.]* “I nevertheless mentioned to my hosts that the Geneva lawyer who has signed on all accounts almost certainly knew of its existence, as he saw details of credit card expenditure on FINMA and would certainly know from where it was financed. The situation initially appeared to cause some disquiet to my hosts, though this later gave way to a more relaxed attitude, with the sentiment that Genevan lawyers could be discreet—something I did nothing to discourage. We previously met last November. I promised to come back with a considered approach to the questions that preoccupied her: the fact that her account here, which she had inherited, was not known to the UK tax authorities; the European savings directive”—sorry, I called it the wrong thing—“and how she would react to it; the issue of distributing funds to her family, most of whom lived in another jurisdiction, in a tax-efficient way.” It goes on and on.

This is wonderful: “One thing, client satisfaction—satisfied.” That is the comment from your customer. “Additional comments: their cat has been put to sleep on the 27th of July.” This is absolutely chock a block—

Mr Burrowes: He got no hint of tax avoidance, he says.

Chair: I just don’t believe it. Either you were completely and utterly incompetent in your oversight duties, or you knew about it. This is tax avoidance on an industrial scale. A third of the entries on the data that we have seen—the Falciani data; we have not seen the rest—are written up by your officials, and there are endless visits to Britain to sign credit card forms to do endless things. I don’t believe that you didn’t know.

Chris Meares: Madam Chair, we did not see any of that data. I did not see any of that data. It was contained in—

Q212 Chair: I don’t believe that you didn’t know, Mr Meares.

Chris Meares: I didn’t know. It was all contained in the Swiss systems. The first knowledge I had of any of what you read out was through *The Guardian*, which sent it to me in January this year.

Q213 Chair: I don't believe that you didn't know.

Chris Meares: That's it.

Q214 Mr Jackson: May I ask a very straightforward question, Mr Meares? You will be aware that within the Swiss tax and banking jurisdiction, in 1998 the rules in respect of due diligence altered with respect to the accounts of politically connected figures. You said that you are not an expert on Swiss tax law. Who was responsible for making sure that the bank, the arm of which you were effectively the chief executive, was complying with those local requirements, in terms of due diligence, for new and existing arrangements with clients?

Chris Meares: After that law came in, the Swiss bank—it was before HSBC owned it—would have made sure it complied with the local laws, and HSBC, when they acquired it, would have looked at those systems. I know that there was what was called a money laundering policy and procedures manual in that entity, which would have made sure that it complied with the regulations in Switzerland. We had many meetings with FINMA—the regulator—in the usual course of things. They came in and reviewed the bank at various times over the past 15 years.

Q215 Mr Jackson: It was nevertheless your responsibility to ensure that you did not fall foul of the legislation in that jurisdiction.

Chris Meares: There was a local CEO, there was a board, and then I was supervising to make sure they were in control of those regulations.

Mr Jackson: Okay. I want to focus on something you said—

Q216 Nick Smith: Sorry, what did you say you were doing?

Mr Jackson: I am just asking—

Nick Smith: Sorry, I am just trying to find out what exactly Mr Meares's responsibility was. You were doing what?

Chris Meares: There was a local manager running the Swiss bank. There was a board that was responsible for overseeing that, and I was overseeing the Swiss business.

Nick Smith: Floating about.

Q217 Mr Jackson: Going back to your balanced scorecard—HR gobbledegook, but we'll set that aside—was ethical trading and business part of that balanced score card?

Chris Meares: Mr Gulliver may want to comment, because he knows about it. I think ethics and honesty were a very key part. I worked for 30 years for HSBC in my career and I have never had my honesty or integrity doubted.

Q218 Mr Jackson: Okay. My final question is can you clarify this: Mr Gulliver makes mention of remuneration packages being by means of shares—and clawback, which is a slightly tangential issue. Let's talk about shares. You say in the period that I mention about the increase in the dollar pre-tax profits in 2006-07, for instance that I referenced earlier—this goes back to Mr Mitchell's question—did you receive any taxed sum consequent upon the performance of the business in Switzerland, or was it all in shares, or was it completely unrelated to the performance of the Swiss business?

Chris Meares: I had variable pay that was related to the whole business—the whole of group private banking—and it included many measures; performance was one of them, but equally risk, how we dealt with people and how we did the integration would all have been part of that.

Q219 Mr Jackson: I just worry about the shareholders of the bank, because Miss Fairhead is signing off bonuses in her position or has a scrutiny and oversight role. She doesn't know what is going on in Switzerland. You don't know what is going on in Switzerland. You don't know the source of this profit, which goes up 56% in one year, so someone is not being wholly honest with the shareholders of HSBC at the time, whilst you are filling your boots with your bonuses, whether in shares or cash. I find that slightly bewildering. You either didn't know what was going on—didn't have a clue—or you did but you are not being wholly candid with the Committee.

Chris Meares: We know what was—

Q220 Mr Jackson: We do now in retrospect, in hindsight.

Chris Meares: If you are focusing just on 2007, you have to remember that the business had been owned for six or seven years and we were at the peak of one of the biggest booms in the financial market and most of that—the reason for the increase in profits—would have been purely around client trading activities, client investment, and that is why the profits would have been big. In 2008 they were down quite a lot on that. It was all related to client activity.

Q221 Mr Burrowes: We have had criticism of aggressively marketing avoidance schemes. Lin Homer referred to mid-2000s banks including HSBC and other institutions practising that. The Swiss files also reveal particular evidence of aggressively marketing avoidance schemes under HSBC's watch from 2005, but under your watch—2006 onwards—did you stop any avoidance schemes?

Chris Meares: In 2009, the UK private bank had been involved in some film finance schemes—

Chair: ESD

Chris Meares: We stopped those.

Q222 Mr Burrowes: Apart from that, did you stop any avoidance schemes from 2006 to 2011?

Chris Meares: I am not aware of avoidance schemes.

Q223 Chair: You were setting up accounts in Panama to avoid the European Savings Directive; full stop.

Chris Meares: We were not offering that as a scheme.

Chair: You were.

Chris Meares: What has come to light is that—

Chair: You were.

Chris Meares: What has come to light is a number of relationship managers in discussion with the client—

Q224 Chair: The bank was offering and you were the guy in charge.

Chris Meares: I do know that the offer of companies was gradually withdrawn around 2006 to 2007, but it is a long time ago.

Q225 Mr Burrowes: What was withdrawn?

Chris Meares: The offer of companies to client was withdrawn, I think, around that time for certain clients.

Chair: I want to come to you Miss Fairhead. I am going to say something that is a bit unpleasant to say, but I say it as a licence fee payer. Having watched your performance this afternoon, I have to say this to you: either you knew, and if you knew, you colluded in tax evasion—

Rona Fairhead: I categorically deny that.

Q226 Chair: —or you didn't know, and in that case, I think you were either incredibly naive or totally incompetent. The record you have shown of your performance here as a guardian of HSBC does not give me the confidence that you should be the guardian of the BBC licence fee payers' money. I really do think that you should consider your position and should think about resigning. If not, I think the Government should sack you.

Rona Fairhead: May I say, Madam Chair, that in the period when I was chairing the committees, I was in a non-executive position of oversight and was on non-variable pay? It was a pure fee, and I would say that at the time I was working 40 to 50 days for the bank. My role in oversight is—I think it is reasonable for a non-executive director to rely on the policies and management structures in place and on independent experts who have been commissioned because of their expertise to highlight issues. That was absolutely what we insisted on. Anybody who came in front of the audit committee or the risk committee—you can ask anybody within the bank; we were unyielding if we discovered or suspected any wrongdoing or any issues that were not being addressed. So I absolutely refute what you said.

What we have done, as Stuart highlighted, with the benefit of hindsight and looking at how much the bank grew and how the bank's culture became rather dissipated, is that we—I was clearly one of those driving the management for this change—changed the strategy to make the organisation simpler and to put in centralised function controls, because it became very clear that the systems we were relying on as the oversight body to flush out these issues, and the responses we were given to the questions, were not adequate. So I refute that. I would say that I have actually been leading in putting into place the changes and demanding that the executive put in place changes to address the weaknesses exposed.

Q227 Chair: Well, I'm afraid you have lost my trust.

I want to finally ask some questions that arose out of the other whistleblower, Ms Shelley. I want to understand from you, Mr Gulliver, why you did not talk to her. This is a woman who had worked for the bank for 30 years. She was in charge of compliance. There was another leak in Luxembourg, sold to Germany, and she was concerned that the bank was assisting people to get their money out of Germany before they paid tax. Why did you not engage with her?

Stuart Gulliver: Her concerns about compliance were escalated—remember that she is a compliance officer, not a whistleblower. A compliance officer's job is to highlight compliance issues. Her concerns about compliance were taken up through the management in Luxembourg and eventually reached group in London, and she was backed on every single one of her concerns. None of the things she raised as concerns were in any way decided differently from her recommendation. As I said to the Treasury Select Committee—

Q228 Chair: Is there any truth in her allegations that you had officials in Germany who were deliberately helping presumably high net worth individuals there to take their money out of Germany before the German tax authorities caught up with them?

Stuart Gulliver: She raised those concerns. Her recommendations were followed. Group in London—group headquarters—backed her. They backed her.

Q229 Chair: So you did?

Stuart Gulliver: We followed her recommendations. Her concerns about a particular account in Germany and how it was going to be closed were enforced. She said, “We need to do x.” People were questioning x in Germany, but x was what was done when she surfaced it to head office. There was nothing that she recommended that the group did not follow. Yes, there was obviously a debate, but when it went up through the reporting chain, she was backed. That was not the reason that the tribunal found as it did: it was not down to whistleblowing. As I said to the Treasury Select Committee—I am very happy to do this for your own Committee, Madam Chairman—we can write to you explaining why this took place and why she left, but we have to respect her privacy.

Q230 Chair: Okay. Can you give us an assurance? We found that in Switzerland people were taking out bricks of cash. Was that happening elsewhere in 2011-12? The Falciani memos were out in 2010—they emerged into the public domain. Her assertion was that people were still being allowed to withdraw big bricks of cash in 2011-12—more than 5 million, to put it into context.

Stuart Gulliver: There is an approval hierarchy, a chain of approvals that has to be created for individuals to take more than \$250,000 in cash out of an account. Those will clearly be along the lines of, “What do they need the cash for, is their tax transparency in order, where are they taking the money?” In 2012 we changed the terms and conditions so that we can refuse to allow people to take large amounts of cash out of their accounts. In 2013 we put limits in place, again with approval tiers, to set cumulative withdrawals over 60 days, so that people can’t keep coming back and end up with a large amount. You cannot take cash if you close your account to go and open an account with another bank. There are no prepaid cash cards. Cash withdrawal cannot exceed 20% of the value of the account.

Nick Smith: Get to the point. Answer the question.

Q231 Chair: The allegation concerns the period beyond 2010, when all this stuff was out. It is about 2011-12. I don’t know whether you were already in post by then.

Stuart Gulliver: No, I am in post from 1 January 2011.

Q232 Chair: Okay, you were then. In 2011-12 people are still taking out big chunks of up to €5 million from private banking accounts.

Stuart Gulliver: Right, I am not aware of that, I will need to come back to you, but do not assume that anyone who withdraws that amount of cash is necessarily evading tax.

Q233 Chair: No, but it is clearly a red flag, okay?

Stuart Gulliver: It is clearly a red flag and we would expect to have a due diligence around it as to what the purpose was.

Q234 Dame Anne McGuire: Is it not a risk? Sometimes I wonder whether we are talking in some sort of banking bubble here. There is an element of common sense that needs to be brought into this debate. If somebody is withdrawing £5 million cash, what would be the purpose of going to the bank and filling my case with £5 million?

Stuart Gulliver: Okay, so if you are a middle eastern client and have \$5 billion with us and wish to withdraw \$5 million in cash, that might be quite normal. If you are clearly sitting in the UK—

Q235 Dame Anne McGuire: It wouldn't raise a question mark to you?

Stuart Gulliver: Of course, and there will be a process by which we can evidence that checks have taken place.

Q236 Chair: This is 2013.

Stuart Gulliver: No, starting, as I say, from 2011-12.

Q237 Chair: 2011-12 is when these allegations are around.

Stuart Gulliver: Right, I haven't seen the detailed allegations that you're talking about, so let me come back on those, but there is a process in place. It is not the case that every single person withdrawing a large amount of cash is necessarily conducting a form of tax evasion or avoidance. They might come from a country where, actually, there is no tax. They might be super high net worth and, therefore, that amount of money is not unreasonable. It is going to be case by case. What you are clearly looking at, in 2005, I completely agree that I could not possibly condone.

Q238 Chair: No, this is 2011-12. I have deliberately moved on to 2011-12. The other interesting this is: have you sacked any compliance officers since 2011?

Stuart Gulliver: I don't know whether we have.

Q239 Chair: From a private bank in Switzerland, who may subsequently be making claims of unfair dismissal?

Stuart Gulliver: I am not aware of that, Madam Chair.

Q240 Chair: Can you write to me about that, please?

Stuart Gulliver: Yes, certainly.

Q241 Chair: Is anybody suing you for unfair dismissal, of the private bank employees in Switzerland, Luxembourg or anywhere else in the private bank sector?

Stuart Gulliver: I am not aware of that. I will write to you.

Chair: All right. *[Interruption.]* That has been the most effective intervention: it's broken my concentration.

Stephen wanted to disagree with me slightly.

Stephen Hammond: I did, Madam Chairman. I know about the spirit of unanimity, but I did want to disagree, as I did last time. For the record, I think that your comment to Rona Fairhead was unfair. I have experience of audit committees, and there were a number of failings that you agreed she turned up. It is expected that non-executive directorships act differently from executive directorships. To be fair, your comments should have been directed to Mr Meares. I am afraid, Mr Meares, in spite of what you said, in legal terms I think you are a wholly unreliable witness.

Chair: I am sorry that we do not have unanimity on that, but I don't have any confidence in either of them, just to make it absolutely clear.

Mr Burrowes: That is your personal view.

Chair: It's a personal view.

Mr Burrowes: On the issue of trust, I don't hold to your view on this.

Chair: I have thought about this all weekend and I thought, "I can't see it." Either you knew, and that's illegal, or you didn't know and you should have done, and I cannot find a way round it. I'm sorry about that: I've met you once and I like you, but I just don't think you're fit for that job.

Mr Burrowes: The sad thing—what I care about—is not accepting the whole responsibility.

Chair: Okay. Thank you very much indeed for coming this afternoon. We have another session; I am wondering whether we should postpone it until we see Mr Hartnett, so that we see the two together. Apologies to Mr Troup, but we are going to postpone. We have a visit from Mr Hartnett on the same issue, so we will see the two together. I think everybody's had enough.

